

Belarus: Is There Any Way Out of The “Kremlin Trap”?

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Introduction by Karen Kaya, FMSO

The end of the Cold War did not end the 'struggle of two systems;' but merely transformed the landscape of the competition for influence. The new struggle became one of competition between Europe and Russia for influence in the post-Soviet space. Within this new competition, Russia has been aggressively pursuing its goal of re-gaining its influence in the former USSR countries.

In this context, Leonid Zaiko of the Analytical Centre Strategy in Minsk, offers a perspective from within one of these former USSR countries: Belarus. As a leading Belarusian economist, Zaiko aptly discusses the economic factors prior to and following the 19 December 2010 elections in Belarus; clearly making his case for the inevitable and eventual fall of Belarus into the "Kremlin trap," at least in the short and medium-terms. Zaiko views the elections as a key turning point for Belarus, at the end of a brief 'flirt' with democracy and an exciting period of engaging with Europe.

Confirming the phrase, "It's the Economy, Stupid," Zaiko makes a compelling argument that economic demands keep Belarus under Russia's sway. Through concrete examples, he shows Russia's aggressive tactics that help the Belarusian economy in the short-term, while giving Russia leverage over Belarus. The more Belarus tries to break away from Russia, the more aggressive Russia becomes in inserting itself into Belarus' economy, creating a predicament for Belarus.

The author laments the fact that the European Union (EU) has been unable to emerge as an alternative to Russia. The obvious question that remains is, what can Europe do to reverse Belarus' fall into the "Kremlin trap?" How can Europe save the Belarusian public from a regime that is approaching a totalitarian dictatorship? What lessons does the Belarus case offer for other former Soviet countries, such as the Ukraine? The article provides a starting point for generating discussion on such important questions.

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By Leonid Zaiko, The Analytical Centre Strategy



The year 2011 has ushered in a new political and economic reality for Belarus. An exciting period of experimenting with democracy, involving both internal and external actors, has come to an end. A period of actively developing relations with the European Union (EU) is winding down. The process of moving forward on the pathway towards Europe is also coming to a halt. What's next for Belarus?

A Brief Background on the Situation in Belarus

Vladimir Putin's predictions for the Belarusian elections turned out to be right. Such is the fate of Belarus: External/foreign scenarios regarding its future end up becoming reality; domestic plans, particularly those of the opposition, quickly become obsolete and remain unimplemented.

Since 2006, many of Russia's designs for Belarus have materialized, due to its overt and covert plans regarding Belarus' politics and economy. This trend can be traced back to the first energy conflict, when Russia terminated gas deliveries to Belarus.

Russia's main goal is to gradually incorporate Belarus into its own sphere of influence. Clearly, this would also require the eventual detachment of Belarus from Europe. European politicians had designs of their own, which focused on the geopolitical perspective, i.e. the inclusion of Belarus into the democratic belt of states through projects such as the “Eastern Partnership,” and other initiatives. However, Europe is slowly realizing that it has lost to Russia in the game of possible alternatives for Belarus.

“These new and non-traditional debates produced a new concept in the country's political life: the concept of choice.”

PHOTO: Belarus elections - The Opposition, via RIA Novosti [<http://en.rian.ru>]

The Western Europeans miscalculated the situation. Even though the Cold War ended over 25 years ago and the USSR no longer exists, the geopolitical and geo-economic determinants of the past are still there. They did not realize that Belarus became an “experimental model” of a state which exists in the post-Cold War world, but is still tied economically and politically to Russia as a preserved fragment of the USSR. “The struggle between two social systems” did not end in 1991. The end of the Cold War simply changed the landscape of the competition, turning it into one for influence in the post-Soviet geography. Within this competition, Russia – having regained its strength at the turn of the century – has aggressively been pressuring the former USSR countries and inserting itself into their activities.

In November-December 2010, following a few months of democratic awakenings, the Belarusian public became more and more vocal and the authoritarian regime lost its monopoly on power. The leadership realized the need to contain the public, which was starting to engage in new and non-traditional debates regarding the course of society. These new and non-traditional debates produced a new concept in the country's political life: the concept

of “choice.” In this context, two types of “choice” emerged: (a) Internal choices; (b) External choices, including geopolitical considerations and external cause-effect assessments.

Choices Concerning the Internal Dynamics of the Country

The first type of choice had to do with internal developments in the country. How would the country’s political and economic system develop? The containment of this debate entailed the suppression of opponents. This was followed by the re-balancing of power structures in the country such as to increase the authority of elite leaders. The political reality that has emerged for the medium-term already confirms this. The EU made a theoretical error in criticizing and protesting against the harsh actions of the authorities. Its calls for democratization produced the unintended consequence of a “controlled democracy” led by Russia and Belarus.

This was Putin’s understanding of “democracy,” but for the Belarusians, the situation was reminiscent of the times 30-40 years ago. As it had done in Soviet times, the leadership of Belarus also insisted that this was democracy.

Alexander Lukashenka and his team were surprised to see liberal statements on TV during the election campaign. There had never been any such statements, nor are there any today. Belarus’s brief flirt with democracy extended through October and November 2010. The country seemed to be on the verge of seeing both concrete results and political action aimed at changing the political situation. The fundamental dictatorship eventually cracked, though the authoritarian regime was by no means eliminated. Odious forms of administrative management began to gradually, reluctantly, and cautiously tone down their rhetoric. All this was followed by a new and interesting phase in Belarus’s political and economic development. The regime in power began to adapt to the changing reality in temporary, awkward, and inconsistent ways.



Maps provided by *maps.com*, *yahoo*, and *ESRI*.

“with the upcoming elections, the public sector witnessed an intentional increase in salaries and retirement benefits.”

The inconsistency is visible in the renewal of the composition of government, which does not show any sign of change. The newly appointed Prime Minister Mikhail Miasnikovich personifies a generation of the past in Russia and the Ukraine: a generation used to the political establishment of the period prior to the collapse of the former USSR.

Economic Factors

All development scenarios for Belarus hinge on the economic climate in the country.

We now have to look at the state of the country's economy at the beginning 2011. In 2010, its GDP was estimated at \$54 billion, with a 7.6 percent increase in the sale of goods and services. The net exports were minus\$9 billion (the country imported \$9 billion more than it exported), despite the fact that just in November 2010, Belarus's export was as little as \$22 billion.

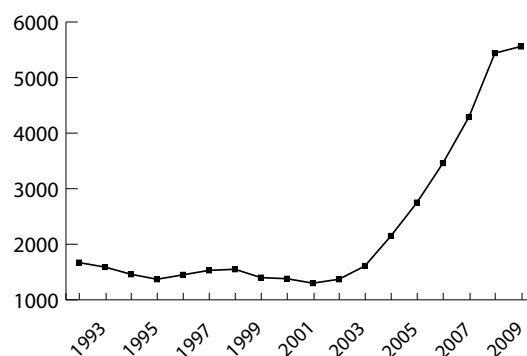
The reasons for growth in 2010 were different than other years. With elections set for the end of the year, politicians had an incentive to drive out positive results, especially in the increase in per capita income. As a consequence, in nominal terms, salaries increased by 21.7 percent, accompanied by a substantial growth in money supply. The country's total money supply (M2) grew by 27.2 percent. However, the GDP growth was down to a quarter of what it had been before; which would normally require lower money-supply rates. But with the upcoming elections, the public sector witnessed an intentional increase in salaries (up to 35 percent) and retirement benefits (up to 10 percent). This necessitated an additional 25.2 percent of cash money to be issued by the central bank (MO) and released for circulation.

As 2011 approached, the prospect of the devaluation of the Belarusian ruble emerged, given the GDP growth by 7 points and the 25 percent increase in the amount of money in the hands of the population. The country came to a point where exports and imports needed to be balanced. This is why in 2011, Belarus will have to focus extensively on balancing income and expenses across the country. The population will have to consume less and save more, which will not be an easy task for many social groups. This is especially true since politicians do not have an incentive to create massive earnings increases in 2011.

Choices Concerning the External Dynamics and Geopolitics of the Country

The second type of choice focuses on external, i.e. geopolitical factors. How do geopolitical factors influence the country? Considering the ambivalence surrounding the situation, there is no reason to believe that geopolitical factors have an increased effect on the economic and social system of the country. Depending on the time period, their influence may grow or weaken. This is consistent with the findings of Belarusian researchers, and experts have always carefully weighed the influence of exogenous factors in their studies.

Belarus GNI per capita, Atlas method (current US\$)



Gross National Income (GNI) Data from World Bank [<http://data.world-bank.org/indicator/NY.GNP.PCAP.CD/countries/BY?display=graph>]

“the Russian scenario is also posing severe restrictions on Lukashenka, who no longer has the levers formerly at his disposal.”

Another factor which makes it difficult to discern the effects of geopolitical factors is that the Kremlin and Brussels have never been on the same page regarding their positions on Belarus.

This implies two possible future scenarios regarding the fate of Belarus: Russian and European. Belarus's path will be defined exclusively by one of these approaches, but there will not be a unified Russian-European scenario. Russia does not need Europeans in its sphere of influence or responsibility.

The Russian Scenario

Over the past five years, Russia has increasingly been nudging Belarus towards its own orbit. Starting in 2006, Russia started to put significant pressure on Belarus: the price for gas and oil soared. This forced the Belarusian government to decide on the construction of a nuclear powerplant, perceived by the public as a move towards energy independence. Eventually, the Russian bid for construction of the plant was accepted, rendering the idea of energy independence meaningless.¹

The Kremlin, and particularly Putin, was closely watching the events before and after the December 19, 2006, elections. They were witnessing Belarus become more and more alienated from Europe, and watching Alexander Lukashenka carrying this out himself, with the backing of several oppositional politicians. Meanwhile, lingering election-related imprisonments and proceedings were in line with the Russian scenario. The more protracted they were, the more Belarus's political power appeared undisputed in the eyes of the global community.

Russia's scenario was constructed such that, after the elections and condemnation of events, the only possible course of action for Lukashenka was the Russian course. The commentaries as early as December 20 were alluding to “the fraternal Russian people.” Since then, TV and mass media have been advancing the pro-Russian theme. This Russian scenario will end up becoming reality in the coming years, and it will be based on Russia's strategy to increasingly integrate itself into Belarus's economy and on its encroachment on Belarus's large enterprises.

However, the Russian scenario is also posing severe restrictions on Lukashenka, who no longer has the levers formerly at his disposal. The Nord Stream Pipeline is scheduled to become operational in 2011, and it is likely to satisfy up to 30 percent of Germany's gas needs, ending the transit monopoly of Belarus on Russian gas flows to the EU. In addition, Russia has officially allocated a subsidy of \$4,124 million/year to Belarus, a decision made at the December 20 meeting of Russia-Belarus prime ministers in Moscow. Putin emphasized that this was merely an oil subsidy and signaled that there would be others. In reality, Russia's plans for Belarus entail the country's eventual partnership in a common economic zone, thereby making it impossible for Belarus to conduct any independent negotiations or make decisions favoring the EU. This plan foresees the integration of Belarusian state corporations – with their privatization anticipated – into the network of Russian industrial corporations. For example, a plan to integrate Belarusian dairy and meat industries into Russian holdings is also pending. Regardless of what Lukashenka says about sovereignty and independence, he will inevitably be constrained by these factors.



Belarusian President Alexander Lukashenka, via Ria Novosti [<http://en.rian.ru>]

1. After his meeting with Miasnikovich in Moscow, Putin declared that Russia's government was constructing a new nuclear power plant in Kaliningrad Oblast. An analogous construction would cost Belarus \$6 billion. This reasonable price prompted the Belarusian government to accept the Russian alternative.

Russia plans to gradually become the only option for Belarus, despite Lukashenka's promises to Chinese Communists. Such promises would eventually be placed on the back burner, like the one made to Venezuela. Initiatives like cooperation with Venezuela on oil and other areas will gradually phase out as their relevance diminishes. The Russian Council for Foreign and Defense Policy has been deterring Belarus from these deals by pledging to provide the country with inexpensive gas and oil supplies.

However, the Kremlin does not seem to be set on Lukashenka just yet. Putin appears to have postponed this decision which -- since the times of the USSR and KGB -- has been traditionally referred to as "personnel affairs." Recently "personnel" decisions have been made with respect to Turkmenistan, Kyrgyzstan, and Ukraine. Meanwhile, the "personnel issue" of Belarus remains an agenda item that is yet to be decided. One thing to note about Russia's scenario for Belarus is that the Kremlin will not coordinate or cooperate with Brussels or Washington on any of its decisions or actions.

On the economic front, following the elections of 19 December 2010, the Kremlin has become Belarus's largest shareholder by paying between four to eight billion dollars a year to retain the country within its own sphere of influence. This will continue in the near and medium term, and likely become a long-term reality.

The European Scenario

Currently, there is no unified "European scenario," as the Europeans have been unable to unanimously agree upon a position on Belarus. Furthermore, those in power in Belarus do not mention the negative role that Moscow played before and after the elections, despite the fact that this was critically important. Instead, Lukashenka has blamed Germany and Poland for being the "undermining structures" that have financed the current opposition in Belarus. Yet official records do not show any substantial evidence to prove the vague allegation that "money from Brussels" financed a coup d'état in Minsk. Given the resolutions that the European Parliament has adopted, there are two possible outcomes for Belarus:

A. *The "Traditional European" Outcome:* This is based on the principle of "no formal agreements" with Belarus. This is apparent in Europe's criticism of Alexander Lukashenka's actions and personality, as well as its moves to isolate him and his government. In addition, a fairly extensive list of Belarusian officials is subject to a travel ban, a well-known tradition for dissidents (just as in the Soviet times). Europe also refuses to provide loan support, but this is pointless given the subsidiary support that Belarus receives from Russia.

The economic support that Belarus receives from Russia has both advantages and disadvantages. Though it makes Belarus less dependent on Europe, it does not allow it to be completely independent either. For instance, Belarus's trade relations with Berlin are important given the critical import of machinery, equipment, and chemicals that Belarus receives from Germany. In 2010, Belarus's purchases from Germany were over \$2 billion, pointing to an increase from the previous year. Belarus purchased products ranging from pork and pharmaceuticals to internal combustion engines and equipment for the thermal processing of materials. This machinery and equipment cannot be substituted with products from Russia or Venezuela.

B. *The "Kremlin Counter-Attack" Outcome:* In this scenario, the EU opens up to Belarus. This entails the introduction of visa-free travel to all Belarusian citizens, except state officials and representatives. Four to five thousand grants are set aside for Belarusian students to study in EU countries. Comprehensive cooperation programs are established between civil society institutions. In contrast to the 4 billion rubles of Russian assistance, Lukashenka would only need 500-600 million euros to renew itself.

However, even a possibly stringent EU scenario should include Europe's willingness to export oil products to Belarus. This would help Belarus's efforts to break away from Russia. Without this willingness, Belarus would become completely dependent on Russia, such that if the Kremlin stops oil deliveries, Belarus would have nothing left to buy. Putin has been solidifying the Kremlin's position as the sole source of oil products for Belarus, creating panic among Belarusian elites. By reducing oil deliveries at discount prices, Moscow has scaled down the EU share of Belarus's exports to 29 percent from the previous 44 percent.

Based on all these factors, the course of Belarus's decisions on these matters is uncertain, given that Russia's support has already reduced the effects of the West's efforts. The Kremlin stepped up its actions particularly after the 2010 elections. While there are still a number of possible alternatives for Belarus's development, their chances of succeeding are minimal unless we first discern the factors that brought this country to its current situation: Why has the EU lost Belarus to the Kremlin? Why have the West's political elites frequently miscalculated their steps with respect to Belarus? Why have Germany and Poland's engagements with Belarusian authorities made them into enemies? Are these countries' publics aware of what is going on?

As a result, the "Kremlin scenario" appears to be winning. Unfortunately, it is not the "way out," but a way into the "Kremlin trap," for both Lukashenka and EU leaders.

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